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FISCAL IMPACT STATEMENT

LS 7928

BILL NUMBER: SB 641

NOTE PREPARED: Jan 17, 2005

BILL AMENDED:

SUBJECT: Local Option Property Tax Replacements.

FIRST AUTHOR: Sen. Mrvan

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill authorizes counties, cities, and towns to adopt local sales taxes, fuel taxes, alcoholic beverage taxes, tobacco taxes, and firework taxes. The bill establishes the county tax council consisting of the county fiscal body and the fiscal bodies of each city and town located in the county. The bill authorizes the county tax council to adopt local taxes to be distributed to each of the units represented on the county tax council. The bill provides that the local taxes authorized are in addition to other taxes authorized under Indiana law. The bill provides that the authorized taxes shall be used for property tax replacement.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Department of State Revenue:* Adoption of a local option tax, under the bill, by a county, city, or town would have an indeterminable and potentially significant administrative impact on the Department of State Revenue (DOR). The impact on the Department will ultimately depend upon the number of counties imposing a local tax under this bill.

State PTRC: The state pays Property Tax Replacement Credits (PTRC) in the amount of 20% of the portion of all civil taxing unit operating levies that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences. If gross levies are reduced as a result of replacement revenue generated by these local taxes, then the state's liability for these credits would be reduced. The amount of state savings would depend on the amount of local revenue raised and corresponding reduction in local levies.

Explanation of State Revenues: The bill could potentially cause a decrease in state revenues. Whenever a tax

rate is increased, there is the possibility of a decline in overall sales of the goods being taxed. The impact on state revenues would depend upon the number of counties imposing a local tax, and the rate imposed under the bill. (*See maximum rates under local revenues.*)

Explanation of Local Expenditures: *County Tax Council:* The bill would allow counties to establish a county tax council. The membership of a council would consist of the fiscal bodies of the county and each city and town that lies either partially or entirely within the county.

Explanation of Local Revenues: *Summary:* The bill would have an indeterminable impact on local tax revenues, and would depend on local action. The bill authorizes counties, cities, and towns to adopt local sales taxes, fuel taxes, alcoholic beverage taxes, tobacco taxes, and firework taxes.

Maximum Rates: The bill specifies the following maximum rates:

Proposed Local Tax	Maximum Rate Under Bill
Sales	1%
Fuel	1%
Alcoholic Beverage	2%
Tobacco	2%
Fireworks	2%

Tax Estimates:

Sales Taxes: If every county were to adopt a county option sales tax at the maximum rate of 1%, the projected revenue raised in FY 2006 is estimated at \$852.1 M statewide.

Fuel Taxes: If every county were to adopt a county option motor fuel tax, a one cent fuel tax rate is estimated to raise \$33.1 M statewide in CY 2006.

Fireworks Taxes: If every county were to adopt a county option fireworks tax at the maximum rate of 2%, the projected revenue in CY 2006 is estimated at \$1.14 M statewide.

Cigarette & Alcoholic Beverage Taxes: As a comparison, the following table illustrates the estimated revenue impact to raise these tax rates at the state level by \$0.01 and \$0.10:

FY 2006 Revenue impact to raise the taxes listed by \$0.01 and \$0.10					
Tax	Current Rate	Rate after \$0.01 Increase	Revenue Raised (in millions)	Rate after \$0.10 Increase	Revenue Raised (in millions)
Cigarette	\$0.555	\$0.565	\$5.3	\$0.655	\$52.1
Beer	\$0.115	\$0.125	\$1.2	\$0.215	\$12.1
Liquor	\$2.680	\$2.690	\$0.1	\$2.780	\$0.7
Wine	\$0.470	\$0.480	\$0.1	\$0.570	\$0.9

This table is provided to give a range of possible revenues generated by allowing these local option taxes. The maximum rate allowed by the bill on cigarettes and alcoholic beverages is 2%. Assuming the average price of a pack of 20 cigarettes is \$2.78, the maximum rate which could be raised would be approximately \$0.056 per pack. Due to the high degree of variance in alcoholic beverage prices an estimate of the maximum rate, in cents per gallon, is indeterminable

Revenue Distribution: Under the bill, revenues of the various local taxes would be distributed on the basis of the maximum levies of the units. The amount of revenue that a county would be entitled to receive would equal the result of the following formula:

[Total revenue to be distributed] X [Maximum levy of the local unit/Maximum levy of all local units in the county].

Gross Property Tax Levies: Gross property tax levies totaled \$1,350 M for counties and \$ 1,134 M for cities and towns in CY 2004. Net property tax levies (after PTRC) totaled \$1,173 M for counties and \$971 M for cities and towns. Under the bill, the new revenues could replace a portion of the taxing units gross property tax levies. The Department of Local Government Finance is to reduce a unit's maximum permissible property tax levy for the ensuing budget year by the amount of revenue received under this bill.

State Agencies Affected: Department of State Revenue; Department of Local Government Finance.

Local Agencies Affected: Counties, cities, towns.

Information Sources: December 14, 2004 *State Revenue Forecast*; LOGODABA; American Pyrotechnics Association *June 23, 2004 release*; Bureau of Economic Analysis; Bob Walls, Department of State Revenue; <http://tobaccofreekids.org/research/factsheets/pdf/0099.pdf>.

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